

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2005-125-G - ORDER NO. 2005-491  
SEPTEMBER 28, 2005

IN RE: Notice of Election of Piedmont Natural Gas	)	ORDER ESTABLISHING
Company, Inc. for Application of the Natural	)	BASELINE AND
Gas Rate Stabilization Act to its Rates and	)	ADDRESSING
Charges.	)	PROCEDURE UNDER
	)	THE NATURAL GAS
	)	STABILIZATION ACT

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Notice of Election filed by Piedmont Natural Gas Company, Inc. (Piedmont, the Company or the Utility) for application of the Natural Gas Rate Stabilization Act (the Act) to its rates and charges in the State of South Carolina and the Company's Notice of Filing of its quarterly monitoring report and proposed rate changes. In conjunction with this election and as required by S.C. Code Ann. Sections 58-5-410 and 58-5-420, Piedmont requests that the Commission make such findings and establish such ongoing procedures as may be required for prospective adjustments to Piedmont's base rates utilizing the rates, charges, revenues, expenses, capital structure, returns, and other matters established in Piedmont's most recent general rate proceeding in Docket No. 2002-63-C.

Piedmont has also filed (1) its quarterly monitoring report for the twelve-month period ending March 31, 2005, and (2) the required revenue deficiency calculations and proposed changes to its tariff rates necessary to permit Piedmont the opportunity to earn

the rate of return on common equity established in its last general rate case as specified in S.C. Code Ann. Section 58-5-420(1). Piedmont requests that the Commission review and accept these documents consistent with S.C. Code Ann. Sections 58-5-430 and 58-5-440 and issue an initial order approving the proposed rate changes set forth in the Notice of Filing of Quarterly Monitoring Report and Proposed Rate Changes on or before October 15, 2005 in conformance with the procedures set forth in S.C. Code Ann. Section 58-5-455 of the Act.

Pursuant to the instructions of the Commission's Docketing Department, the Company published a Notice of Filing in newspapers of general circulation in the Company's service area. No protests were received. A Petition to Intervene was filed by the South Carolina Energy Users Committee.

We have duly considered the materials submitted in this case, including all reports and written discussions, and, pursuant to the expressed wishes of most of the parties, we have determined that we are not required to hold a hearing on the matters detailed in the various filings, pursuant to the Natural Gas Rate Stabilization Act. The majority of our conclusions are derived from our Order No. 2002-761, found in Docket No. 2002-63-G, as we establish the baseline required by the Act. With regard to the request for proposed rate changes, we hold this matter in abeyance, but discuss the procedural requirements for addressing such changes as established by the Act.

Accordingly, we make the following:

**FINDINGS OF FACT AND CONCLUSIONS OF LAW**

1. Piedmont has elected to have the terms of the Natural Gas Stabilization Act, Section 58-5-400, et seq., apply to its current rates and charges for gas distribution service, which were set by Commission Order no more than five years prior to Piedmont's Notice of Election.

2. The approved rates, charges, revenues, expenses, capital structure, returns and other matters established by the Commission in Order No. 2002-761, in Docket No. 2002-63-G, dated November 1, 2002 are the appropriate ones to be relied upon and utilized by the Commission in carrying out the provisions of Section 58-5-400 et seq. that are applicable to Piedmont's election.

3. Based on the approval in Order No. 2002-761 of a cost of equity of 12.6%, the appropriate statutory range of cost of equity for Piedmont under Section 58-5-410 would be, and is held to be, 12.1%-13.1%.

4. As per the Natural Gas Stabilization Act, we hereby establish the ongoing procedures required for adjustments in base rates to be made under the Act. These procedures are based on S.C. Code Ann. Sections 58-5-430, 58-5-440, 58-5-455, and 58-5-460. The Commission craves reference to the Act for specific details connected with the procedural schedule and other requirements.

5. First, the utility shall file with the commission monitoring reports for each twelve-month period ending on March thirty-first, June thirtieth, September thirtieth, and December thirty-first of each year, the filings to be made no later than the fifteenth day of

the third month following the close of the period. The utility shall serve a copy of such reports on the Office of Regulatory Staff (ORS) on the same day and by the same means as they are provided to the commission. The quarterly monitoring reports shall include the following information:

- a. the utility's actual net plant in service, construction work in progress, accumulated deferred income taxes, inventory, working capital, and other rate base components. The report shall also show the utility's depreciation expense, operating and maintenance expense income taxes, taxes other than income taxes, other components of income for return, revenues, capital structure, cost of debt, overall cost of capital, and earned return on common equity;
- b. all applicable accounting and pro-forma adjustments historically permitted or required by the commission for the utility in question, or for similarly situated utilities, or authorized by general principles of utility accounting, or authorized by accounting letters or orders issued by the commission. This authorization may occur either in a general rate hearing or in any other type of filing or hearing that the commission considers appropriate. However, other parties shall be given sufficient opportunity to review and provide comments on any proposed accounting letter or order issued after the initial order allowing future base rate adjustments pursuant to the statute;
- c. pro-forma adjustments to annualize for the twelve-month period any rate adjustments imposed pursuant to this article or other events affecting only part of the period covered by the filing so that the annualization is required to show the effects of those events on the utility's earnings going forward; and
- d. pro-forma or other adjustments required to properly account for atypical, unusual, or nonrecurring events.

6. Second, in the monitoring report filed for the twelve-month period ending March thirty-first of each year, the utility shall provide additional schedules indicating the following revenue calculations:

- a. if the utility's earnings exceed the upper end of the range established in an order such as this one, the utility shall calculate the reduction in revenue required to lower its return on equity to the midpoint of the range established in the order; or

- b. if the utility's earnings are below the lower range established in the order, the utility shall calculate the additional revenue required to increase its return on equity to the midpoint of the range established in the order.

The utility also shall provide a schedule that specifies changes in its tariff rates required to achieve any indicated change in revenue. The proposed rate changes, filed by the utility, shall conform as nearly as is practicable with the revenue allocation principles contained in the most recent rate order.

7. Third, certain procedures apply to the monitoring reports related to the quarter ending March thirty-first. The utility shall file the monitoring reports with the commission and Office of Regulatory Staff on or before June fifteenth and simultaneously shall mail or electronically transmit copies to any interested parties who have requested in writing to receive them. Interested parties shall be allowed until July fifteenth to file comments in writing to the commission and the Office of Regulatory Staff concerning the monitoring report. In cases where the monitoring report indicates rate adjustments are required, or where it otherwise appears to the commission or the Office of Regulatory Staff that an adjustment in rates may be warranted under this article, the Office of Regulatory Staff shall conduct an audit of the monitoring report and specify any changes that the Office of Regulatory Staff determines to be necessary to correct errors in the report or to otherwise bring the report into compliance with the statute. The Office of Regulatory Staff's audit reports shall be provided to the commission and to the utility and made available to all interested parties no later than September first. Interested parties shall be allowed until September fifteenth to file written comments with the commission and the Office of Regulatory Staff related to the Office of Regulatory Staff's

audit report and shall simultaneously mail or electronically transmit copies of these comments to the utility and to all parties who previously appeared and filed comments. On or before October fifteenth the commission shall issue an initial order setting forth any changes required in the utility's request to adjust rates under the statute (the Initial Order). In the absence of such an Initial Order, the gas rate adjustment contained in the utility's filing shall be considered to be granted as filed. Any gas rate adjustments authorized under the terms of the statute shall take effect for all bills rendered on or after the first billing cycle of November of that year.

8. Fourth, within thirty days of the issuance of an Initial Order pursuant to Section 58-5-450, or within thirty days of the failure by the commission to issue an order as required pursuant to that section, any aggrieved party may petition the commission for review of the Initial Order or failure to issue an order and all interested parties of record shall have a right to be heard at an evidentiary hearing on the matter. The party shall serve a copy of such petition on the Office of Regulatory Staff on the same day and by the same means as it is provided to the commission.

9. Fifth, after conducting the hearing required by Section 58-5-460, the commission shall issue a final order that: (1) sets forth any changes that are required to the rates approved in the Initial Order issued under Section 58-5-455(5); (2) determines the amount of any overcollection or undercollection by the utility that resulted from collection of the rates authorized in the Initial Order as compared to the rates authorized in the final order issued under this section; and (3) establishes a credit to refund the amount of any overcollection, or a surcharge to collect the amount of any undercollection

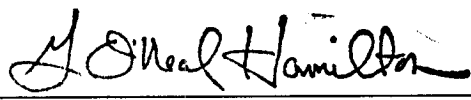
that arose during the time that the rates approved in the Initial Order were collected, and requires the utility to apply the credit or surcharge until such time as the overcollection or undercollection is exhausted. The Commission shall issue any final order required under the statute by April fifteenth of the year following the year in which the monitoring report was filed. The order shall make the corrected rates and the credit or surcharge, if any, effective as of the first billing cycle of May of that year. The provisions of Sections 58-5-330 and 58-5-340 concerning rehearing and appeal shall apply to the orders issued pursuant to the statute.

10. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
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Randy Mitchell, Chairman

ATTEST:

  
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G. O'Neal Hamilton, Vice Chairman

(SEAL)